Kopernik Global Investors, LLC

Edited Transcript of the 2nd Quarter 2014
Conference Call with David Iben

July 23, 2014
4:00 pm EST

Operator: Good afternoon ladies and gentlemen. Thank you for joining us for the Kopernik Global Investors Quarterly Update. On today's call we have David Iben, Founder, Chief Investment Officer, and Lead Portfolio Manager, to discuss Kopernik's views on the current market environment and the portfolio positioning of its Global All-Cap Strategy.

Please note this call is being recorded and the topics on this call are for informational purposes only and should not be regarded as a recommendation or an offer to buy or sell any product or service to which this information may relate. Certain products or services may not be available to all entities or persons. Please consider all risks carefully before investing.

All participants will initially be in a listen-only mode. Following Mr. Iben's discussion there will be an opportunity to ask questions. At this time I'd like to turn the conference over to David Iben. Please go ahead sir.

David Iben: Okay, thank you very much and thanks to everybody. Good afternoon and appreciate your dialing in. Also happy to report that on our one-year anniversary - a little over a year ago we started the business - and we're now over $1 billion in assets under management and growing. So thank you all for your support.

And the markets continue to be fascinating. Our reason for wanting to do this in the first place is we like the fact that the market from time to time gets pretty irrational, sometimes more than other times. And we like to take advantage of that and there's been a lot of emotion in the market lately and that's exactly what we're looking for as active managers.

You've got to love the investment business. It's so easy to know what to do but so hard to do it sometimes. It really requires overcoming emotions and being willing to be unpopular in the short term. I mean everybody knows buy low sell high yet people do the opposite. Why is that?

I was fortunate enough to come into the business when bonds were really cheap, yielding 14% and nobody wanted to buy them. After bonds went up for 32 years and yield next to nothing now, people feel safe in bonds. They're a lot of things but they're not safe. Why is it they seem safer after going up for 32 years than they did back in '81 after they'd been dropping for 16 years?

Stocks are pretty interesting too. They seemed so dangerous five, six years ago when they were dropping by the second and the financial crisis. And now that they've gone up for five years and gone up a lot here in the U.S. people are starting to warm up to stocks, starting to like them a lot more. And so that's an interesting thing to us.

Why don't people like to buy low? One, they don't like to go against the trends and do what's unpopular. But also it's emotions. Warren Buffet will say be greedy when others are fearful and fearful when others are greedy. And John Templeton - one of my favorites - always said people always asked him "where do things look good?" And that's the wrong question. He says the right question is "where do things look really challenging?"

Right now people are feeling really good about a lot of the world. They're feeling really good about a lot of the markets. They're feeling good about the U.S. stock market and the U.S. bond market and the art market and the collectibles market and real estate in a lot of areas of the world. And yet there are other places where they're just panicking.

Panic's interesting. Those of who have been in the business a while may remember about ten years ago people were panicking over any company that had exposure to asbestos. There were companies that had asbestos back in the '60s that were being put out of business. It was pretty scary but what a great time to buy Halliburton or a Crown Cork or those sort of things.

For people who had been in the bond markets when Drexel fell apart and the United Airlines deal fell apart, it was pandemonium in the high yield bond market. And to top it off the S&Ls were being forced to sell high-yield bonds that seemed very scary and actually turned out to be very safe and very profitable over time for those that were willing to buy it.

Way back when - after World War II - two of the better things you could have done with your money is buy the losers of that war, Germany and Japan. Nobody wanted to touch them. Panic and fear, that's often a great time to buy good companies.

Also about ten years ago there was the horrible SARS epidemic in China. The whole world was freaked out about that. What a great time to buy Chinese stocks, good stocks.

Even here at home when Obama won the election, amazing how cheap stocks like Eli Lilly and Pfizer and Aetna and things like that became - there was panic. About a dozen years ago the bank of England dumped all their gold at $255. And it had been dropping for 20-some-odd years. What a great time to buy that.

And then country by country when Brazil elected Lula as president people were very upset. Turned out things were okay. Even the extremes - Colombia and Peru, places like that -- ten years ago or less when there was a lot of violence and the drug game problems, people that bought in those markets made lots and lots of money.

So right now you've got a lot of problems in the Middle East and everybody's afraid. There are a lot of problems in Russia and people are scared to death. There's a lot of inflation in the art market. People aren't worried. No inflation right now going into gold. People are scared to death of that even though it is having a pretty good year.

But it's interesting how people are really liking some countries, really disliking others, really liking some goods, disliking others. So we're seeing this extremes of emotion right now. And that's what we're looking for as investors.

And with that as a backdrop we're doing what we've always done. We are appraising businesses. We're saying what do we want to pay for a good business franchise? What do we want to pay for a good business asset? What do we want to pay for companies that meet basic needs?

And then the markets sometimes say we agree with you. And other times they will give it away. And just like as I pointed out in the past, shades of '99-2000, some of the better, more profitable companies on earth are the ones that they're giving away. And some of the exciting but money losing companies are the ones that are selling at extreme prices.

That is our kind of market, and that is why we continue to be excited with what we've seen. And we continue to be able to buy companies that sell not to the U.S. consumer but sell to the emerging market consumer.

We have some of the best companies in the world that sell natural gas or electricity from cheap clean hydroelectric power or sell phone for services or sell foods, that sort of thing. We're continuing to like what we see there.

Even after a decent run this year in the price of gold mining companies - we're able to buy gold on Wall Street way cheaper than we can buy gold at the corner gold store. We're continuing to like things like uranium that have fallen from $137 a pound to $28 a pound, despite the fact that the fundamentals - maybe not the short term but over the medium term - are incredibly good.

And so to be able to buy in some of the growing parts of the world and do so at conceivably less risk than the rest of the market is very exciting. And for those of you that talk to us we know that you know that we find risk to be a fascinating but important subject.

People that consider volatility to be risk are either not long-term investors or they're missing the point. Those that consider paying too much risky and paying too little to be less risky will be very excited to see that our PE is a third less than the market and our price-to-cash flow is less than half the market's and our price-to-book value's about a third of the market's and our price-to-sales is about two thirds of the markets.

And so this is the sort of market we wait for. It's the sort of market we like. And rather than go over some of the same themes that you've heard why don't I keep my comments short and leave most of the time for questions because usually - especially in this kind of market - there are a lot of questions that are relevant. So why don't we stop for questions?

Operator: Thank you and ladies and gentlemen, Gary Magnuson of Morgan Stanley has our first question. Please go ahead.

Gary Magnuson: Hi David. Just have a minor question. You're a relatively young fund but I know you've been doing this for a long time. But what about capital gains? Do you have any outlook for the year in this fund? I know a lot of older funds might have 40% embedded gains or 30% and things like that. Anything you can comment there in terms of where your fund stands?

David Iben: Yes in general - as a back drop, maybe it's not a direct answer - but we always run our firm to maximize returns and are tax aware. So we try to minimize taxes, but since most of my money's there and since we try to run everybody else's money the way we run ours we do pay attention to try to make capital gains long term. If it's getting close we'll hold off. And we're not of course heavy traders anyhow.

But we do do lots of trims and adds. And the things we are trimming are the things that have been going up. And so there should be some capital gains. We're fortunate enough that the market's been going up. So there should be some capital gains but we have not been actively trading. And I don't know if I can or should say more on that.

Gary Magnuson: Could you add just where you're seeing opportunities in the world - what the latest scare is for you or where you're finding things?

David Iben: Yes, oddly enough we're finding things in the very areas that people loved three or four years ago. We are finding telecom companies in the emerging markets. And we're finding gold companies all around the world. We're finding cheap clean electricity whether it's from uranium or hydroelectric power all over the world.

We're finding agriculture - people used to love that - at huge, huge discounts to what it would cost here in the States for very good properties. So that's the bulk of it. In general the BRIC's that people so much loved a few years ago - with the exception of India that's now hitting new all-time highs - the other three of them have many good companies that happen to be in those countries are being given away. So we're finding a lot there.

Japan, over the last couple years, went from one of our big holdings a year and a half ago to pretty small half a year ago, but that's actually starting to build up again as some of those companies have sold off. So that's generally where we're finding things.

Gary Magnuson: Thanks.

Operator: And our next question comes from Matt Tanner of UBS. Please go ahead.

Matt Turner: Good afternoon Dave.

David Iben: Good afternoon.

Matt Turner: The question is one of our internal analysts at the IB expects a lot of equity raises in the gold miners. And we know what your thesis is on owning them. I was wondering what you expect to see in terms of that and some consolidation.

David Iben: Yes the gold mining is of course interesting. You have this basic collision between incredibly strong fundamentals and then a lot of obstacles and challenges. So where we're buying gold for way less than liquidation value - we're getting a lot of free optionality by owning the gold mining companies and the fundamentals which we're not paying for. The optionality is incredibly favorable for gold following its three-year correction in price.

So a lot of reasons to want to own gold, but especially discounted gold through gold miners. However, our eyes are wide open. The costs tend to go up. The geopolitical risk is higher. And it probably addresses your last point - management is something to worry about. These guys have a history of raising capital at the wrong time and spending capital at the wrong time and destroying wealth. And so we do worry about that.

And so our approach is to one focus on the companies that own a lot of gold that don't necessarily need to go out and find it or do things to it, and diversify. If the gold's going to do great but some of the management might do something to hurt us, let's keep it diversified.

So we have gold in lots of different countries, lots of different currencies, lots of different management teams. And so we think we've diversified that. We've bought the companies at a huge discount to what we think they're theoretically worth. So lots of upside. So even if they dilute us a little bit we still see really large opportunity.

And then we have a combination of companies that are running mines now and generating cash flow versus funds that need to come up with the cash in the next few years and then other ones that'll probably build four or five years from now but have lots of optionality.

So it's basically focus on the best assets, try to get the best management teams, insist on really cheap prices, and insist upon broad diversification. So that's our approach.

Matt Turner: Thank you.

Operator: And next we'll hear from Elizabeth Clegg of TIFF.

Elizabeth Clegg: Hi Dave. I have two questions for you, the first being is Kopernik buying companies cheaply or less expensive than the market? And the second is what do you think the expected return of the portfolio is today?

Dave Iben: Okay are we buying at cheaply absolute or relative - both. Absolutely we are absolute investors. We approach return and risk on everything in absolute terms. So relative is less interesting but then once we've insisted upon absolute it's nice to see that our stuff's cheaper than what others are doing.

And that's the case, too, as I was pointing out earlier. Almost any valuation metric you can come up with we're really cheap relative to the all-country world index.

But in an absolute sense, too, to be able to buy growth companies at 12 times earnings and to be paying a fraction of book value for a bunch of companies that tend to be dominant companies if not monopolies and have a sustainable demand profile. So definitely absolute and relative.

What we don't do is come in and say we expect to make 8% this year and 14% next year. What we do do is never buy anything that on a risk-adjusted basis we don't think we're going to get a double digit return on over time. And sometimes that's easier. Sometimes that's harder. We view this as actually one of the better times because we are finding so many distressed securities.

So we would hope to get double digit returns over time from here and whether that's higher this year and lower next year or lower this year and higher next year I don't know. But we feel very, very good about owning great quality companies at 60% of book value. So I would certainly hope for double digit returns, but time will tell.

Elizabeth Clegg: Okay.

Operator: And next we'll hear from Dan Gallagher of UBS.

Dan Gallagher: Yes hey Dave. Thanks for having this call. Read your piece comparing Russia with Japan after World War II and I thought that was kind of interesting. But in thinking that over - and I know generalizations are dangerous - you know, comparing kind of the typical Russian work ethic to the one that Japan demonstrated over the last years and if you look at capital which was poured into Japan after World War II, and it appears to be kind of Russia there's a capital flight issue.

And then thirdly it seemed that Japan was very - I don't know if humble is the right word - but they were very interested in integrating with the rest of the world. And the regime there seems to be kind of at war with the West and is moving more and more towards authoritarian ways.

I'm just wondering how inexpensive things really are. I guess part of that appearance of inexpensiveness is really tied to the energy sector which is I guess 55% of their index. But could you talk to me about those kind of key differences and debate that or is that all how you see that as well in your calculus as you put money to work there?

Dave Iben: Very good question. What is Mark Twain's saying? "History doesn't repeat itself but it rhymes." So clearly this isn't Japan. I, in the letter, point out a lot of the similarities. As you point out there are differences. There's some good, some bad. So we're not saying it's exactly the same.

Although there have been periods where a lot of capital has come into Russia it's certainly not this year. But over the last 20 years there have been good periods of inflow. Japan there were three, four years where capital was coming out of there in the mid-60s. I was pretty young in the 60s. Everything I have is just research I've done.

Actually Japan as far as integrating other cultures and things they've actually had a reputation for not allowing that. And that's actually one of the things people worry about nowadays about their population declines and they're still being reluctant to allow a lot of immigrants.

Russia until a few years ago had a lot of people leaving the country. Now there are more people coming in. And there are also higher birth rates than there was, but you don't hear a lot about that. I did point out I think in there that Japan did have a lot of the same problems that you hear about with Russia.

You had the concentration of power in certain hands and they were hands people didn't like. The banking system was actually more of a problem in Japan. People didn't like the growth of the banking system. And they had leverage upon leverage where Russia doesn't have that.

Whereas work ethic, I think you have to admire the Japanese work ethic. I think that's a good thing. I'm not sure everybody viewed it that way in the 60s, but I don't know. I am old enough to remember everybody considered their merchandise crappy where that changed over the years to where it was considered superior.

Their strength of course was manufacturing and that has been a great thing over most of my lifetime I guess. Resources three, four years ago were looking like the thing that was going to matter in the future. Now people don't worry about it.

But if I had to guess I think over the next ten years resources will be a wonderful thing to control. The population is still growing so I think Russia will end up looking good with resources.

But I'm not here to say Japan is good or bad. And I'm sure not here to say that Russia is good or all bad. There are a lot of things to worry about but both in my own opinion and the quotes of a lot of people I respected over the time people tend to suggest and I believe that when people get really, really, really negative on something it almost always proves to be overblown.

Earlier in the call I named a lot of times in the past where people were panicked on something. And the level of emotions regarding Russia is about as high as I've seen.

Of course another thing I've mentioned to some people I talk with is back in the late 90s I talked to people about the sin stocks that people hated back then. And people would say, yes fine, you can buy handguns and alcohol and casinos and you name it. Just don't buy tobacco. Really? It was a lot of emotion on tobacco. And now there's a lot of emotion in Russia. I'm not saying it's wrong. I'm saying I suspect time will show that it's overdone.

Dan Gallagher: Okay that's helpful. And then secondly what's your current cash position and how defensive will you be or can you be in this fund?

Dave Iben: Cash is, to us, residual. There's a process, so we're of course 100% bottom up. We do pay attention to what's going on in the world. For each stock we say, how much do want to own? Or when the stock goes up a little bit, we trim a little bit. And if the stock falls we buy a little bit. And there's always stocks we're trimming and always stocks we're adding.

And I can tell you historically in the global all-cap back in 2005 through now it's generally been 0-10%. We expect it to stay at 0-10%. It's 8 to 10, more like 8% right now. And the U.S. - when we used to have the U.S. only portfolios that would get into the teens.

When we used to be confined to only small and mid that got into 20s twice. But with the whole world, all countries, all regions, all industries, all sectors, all market caps, we're finding plenty of things. And so even if we were top down we wouldn't see any need to raise a bunch of cash right now.

Cash yields zero and we're finding really great franchises that yield a lot more than zero and they're trading way below replacement value. So cash in the current world's not something that we'll be building.

Dan Gallagher: Thanks.

Operator: And next we'll hear from Jeremy Finger of Merrill Lynch. Please go ahead sir.

Jeremy Finger: Hey David. Is there an asset level that you're eyeing that you may consider closing the fund or an asset level that would be unwieldy in some of the opportunities that you see out there today?

David Iben: Since a year ago we had no assets and we're a little over $1 billion so it's hard to think about that, but yes we do. Whether it's $10 billion or $15 billion, but we do not want to be at $20 billion, which of course is half the level of what we were running three years ago which we think we did a pretty good job with, keeping it less than half of that should be no problem.

And for the most part it's somewhere between $10 and $15 billion you would see us self-close should we ever be so lucky as to get to those levels. We want to be very, very focused. We want to stay small in terms of the amount of assets we're running and then the strategies we're just doing global of course and we're staying with just a few channels and strong partners, so being very, very focused is important to us.

Jeremy Finger: Thank you.

Operator: And next we'll hear from Brian Mackey of Adviser Investments.

Brian Mackey: Hi David. Thank you for hosting the call today. I was wondering if you could talk a little bit about sort of how you've been following Russia since you've kind of added some positions to the portfolio.

Does the Malaysian air flight trigger a meeting with your investment team and kind of adjusting the political risk discount that you're giving to those holdings and just sort of how you've been kind of thinking about the politics, getting inside of Vladimir Putin's head in the last few months?

David Iben: What we do is we spend all our time appraising businesses and that's where we think we can add value. So we're spending lots of time looking at industry supply and demand. And we're looking at key variables and saying what's the most important factor in this business? Is it asset quality or management or brand name or distribution?

And then we value things a lot of ways. We use lots of different metrics. And then we focus on one metric for an asset rich company. And we look at another metric for asset light companies. And we'll look at more scenarios on volatile streams. And that's where the value's added.

But then we of course are not indifferent between buying a really good company in Canada versus buying a really good company in Russia because we know if we invest in Russia or China or Indonesia or Colombia or Argentina that stuff happens.

And so we want to not be the type of person that comes in and pays a high price before bad things happen and sell them after the bad thing happens and then buy them back six months later when nothing bad has happened for a while.

So what we do is say we think that stuff will happen. And we don't know what, and we hope we're wrong. But we think it's going to happen. And because of that if we might buy something at a 10% discount in Canada let's want a 30% discount in Southern Europe and let's go for 50% discounts in China and Russia. Let's go for 70% discounts in Argentina. So we do all that.

And then we try to stick to it and not like things more that are after the market's gone up for a while and like it less after horrible things happen. We hate to see horrible things happen but when a horrible thing like 9/11 happened or when a horrible thing like the financial meltdown happened, those were times to be buying stocks.

And we do not like at all the things that are happening in Ukraine, but we think we priced them in. They're asking for half price for some of the best companies on earth. The largest oil and gas reserves and the most dominant banks and things like that are dominant. Hydroelectric facilities - these are companies you really, really want to own.

And so we're not liking them less because of what's happened. We might be liking the world less, but we're liking the stocks better when they get cheaper. So that's our approach to it.

Brian Mackey: So does that trigger any kind of conversation, like in a Malaysian Airlines flight -- an incident like that happens -- does that trigger a conversation on the investment team at all? Or is just 110% bottom up let's not focus on kind of the headline news?

David Iben: Both. We try to be 100% bottom up. We also as a team meet every day. One of the great things about this business is having a lot of smart people talk about what's going on and different views on things. And so we certainly do talk about these things.

But we don't get into trying to outguess world politics and try to figure who did this and why they do this and was it an accident or wasn't it. And are sanctions going to be effective or not be effective? We just say yep this is all real bad stuff and it's way more than priced into these businesses so we're going to own these businesses.

Brian Mackey: Okay thanks.

Operator: Sean Kilbride of Raymond James has our next question.

Sean Kilbride: Hi David. Could you briefly elaborate on your case for uranium you mentioned, sort of short, intermediate, and long term outlooks? Could you just tell us a little bit more about your conviction there please?

David Iben: Absolutely. It's one of our favorite areas right now. And the whole willingness to be a patient long-term investor I think is one of our competitive advantages.

So if you look at the short term for uranium I guess it's pretty awful. You've had over the last two years with Japanese reactors off-stream and talking about the German reactors coming off-stream in the future which I imagine happens, but who knows?

And in addition, for 20 years the Russians have been turning bombs into fuel. And last year were the final deliveries which I guess were bigger than normal. And so with demand lower than normal and supply above normal the inventories are really high now. And of course really high inventories are a bad thing for price.

The price is fallen from $137 a pound to $28 a pound. That's quite a drop. Now long term fundamentals are very, very good because after 20 years the Russians have stopped turning bombs into fuel. That's not happening. That stopped more than half a year ago. And without that supply fails to meet demand.

For a dozen years already we've been using more uranium than we've mined. That's going to have to change now that we don't have this other source of supply.

And then the idea that reactors are coming off-stream is just wrong. The Japanese will slowly get theirs back on. But outside of that the Germans might take 20 plants up. The Russians are going to - I mean the Chinese are going to add 20-some-odd plants. Russia, Saudi Arabia, India, others are building them and possibly even the U.S. and U.K. are building them.

So existing plants are using more uranium than is being mined. Sixty more plants are going to come on-stream, increasing more demand for uranium. Eventually supply needs to pick up. That's going to require more mines to get built. Mines are not going to get built at $28 a pound. It's going to be closer to $75 a pound to incentivize people to build mines.

So if the price is roughly going to triple, a lot of people like catalysts. We don't spend our time on catalysts. We spend our time on valuations. We like low prices and good fundamentals. We've got low prices and good fundamentals on uranium. Whether it's two or three or four years that it triples in price we can be patient. But I easily have found out when things are compelling they happen sooner rather than later.

And the prices we're getting on good uranium miners and companies that hold uranium are pretty interesting prices. Just as a year ago we were able to get interesting prices on the companies that used uranium to generate electricity and so we very much like both uranium and hydroelectric power.

They're the cheapest, cleanest sources of electricity. And to be able to participate at way less than replacement cost is very, very interesting. So yes, thanks for the question.

Sean Kilbride: Thank you.

Operator: And next we'll hear from Gary Magnuson of Morgan Stanley. Please go ahead sir.

Gary Magnuson: Can you just talk about who maybe some of your competitors would be in the business or who you respect in that area? And then as a second question, can you talk about the build-up of your staff since you've organized, like Brodsky, Fernandes, McKinney, Rosenthal, where they all came from. Did they come from Tradewinds, etcetera? Thank you.

David Iben: Yes, certainly. We have 34 people. That's in addition to having outsourced the back office and that sort of thing. We've got all kinds of people, lots of experience, lots of different levels of experience and background, and we think that's good.

We like the idea of saying value is prerequisite. Bottom up is prerequisite. Those aren't negotiable. Outside of that let's get as many different views as we can. Let's get people with backgrounds from growth and value and bottom up and top down and two years' experience and 35 years' experience.

Let's have lively conversation and that's what we've done. So guys like Paul and Lee have lots of experience in this business and write some of the most thought provoking letters I've ever seen and having them contribute to the meetings, and they're strong contributors to meetings, it's a great thing.

Mark McKinney and Steve Rosenthal, they worked with me in the early 90s back at Farmers Insurance. Between Farmers and Vinik and Tradewinds I think is it 19 people have worked for me in the past. And a lot of the rest of the people have worked with me either the sell side or competitors or people within the business that I've gotten to know over the years.

In a business where people is the most important thing, it's great to be in a place to bring in 34 great people. So I feel really great about the team we have.

Gary Magnuson: And then your competitors? Any mutual funds that you kind of respect that kind of do what you do?

David Iben: It's a great business. You've got a lot of smart people and get to meet them all. That's what I love about this business. I've always been big fans of people who aren't in the business like Jean-Marie Eveillard and John Templeton and Bob Rodriguez I guess is a little involved, but yes, of course the FPA people and the First Eagle and the IVA people of course I respect a lot.

Most of the good value people both love the fact that we have similar thoughts and similar ways of doing things and at the same time have almost no overlap in names with a lot of these people. We also think this is a wonderful thing. So it's a great business to talk to some of the people I just met and get their views and respect their views and come up with different names. It's a great business.

Operator: And Rick Speidel of Merrill Lynch has our next question.

Rick Speidel: Thanks. I was going to ask about your range. That's been addressed. I'm not sure if your landscape has ever been as broad as it is now but I noticed last month end you were about 12% U.S. exposure. Has it ever been that low before?

And then I would just ask you to comment on the Fed and their -- I guess -- potential exit.

David Iben: The market really decides what we own and what we don't. And so we come up with valuations and the market dictated in say '98, '99, 2000, 2001 that we would not own any tech or telecom. And we didn't. Then in 2002 we owned a lot. And in 2006, -7, -8, into -9 we had of course no financials when our value index was 45% or something like that.

Japan was something that for years and years and years - around the 80s, 90s --- we didn't own any of. And a year and a half ago we owned 25% of it, and that quickly fell back under 10% when they took off.

So to your point, yes, the market really loves the U.S. right now. We love the U.S. too, but when the market agrees with us, that means they're really not giving us anything to buy here. And if you take out resources like Newmont and Peabody we have very, very little in two or three U.S. names. It's the least we've ever had by far.

Like I say, we like the U.S. a lot. We do not believe in the sustainability of profit margins that are double normal in the zero interest rate environment. It will be impossible to sustain. They'll come down eventually. And that should be a headwind.

Yet that wasn't happening in a vacuum. That was happening in an environment where emerging markets were being killed. So five years of U.S. stocks getting more expensive and three-plus years of emerging markets stocks getting really, really cheap, we have the most we've ever had in emerging markets.

We have the least we've ever had in the U.S. We have the least we've ever had in consumer discretionary - zero - and basically zero in health care. This is a really, really bifurcated market. It's - as I mentioned before - there are certain countries and certain sectors they're pricing in really, really good things and other things that are being given away. And our portfolio reflects that.

We don't make predictions. We don't do macro. We're not top down. We do pay attention to what has happened. Population's gone from 3 billion to 7 billion. It's growing and age hasn't gone up. The money supply, the Fed has, you know, from 1913 to 2008 taken money supply from nothing to seven, eight hundred billion dollars.

And then from 2008 until now they cranked it up five times. That has happened. And right now it's continuing to grow every single day but at a lower rate than it was. We don't make predictions but we do look at what the market's looking at.

If the market right now is saying the creation of $4 trillion worth of money out of thin air cannot possibly cause inflation and everything I learned in school says it is inflation, I'm not going to worry about whether it is or not. I'm just going to say if I'm going to own a long bond I want a high, high yield to do that. And the market right now is amongst the lowest yields in the history.

So we see lots of risk that the Fed may have made a mistake. And we see no reward. We don't need to make a prediction on that.

On the other hand, with gold having dropped by a third and the price of the gold mining stocks, we don't have to add much of an opinion on the Fed other than to think gold has sold out so much, whatever the Fed does, it seems pretty cheap to us now.

But if in fact, having created $4 trillion out of thin air is inflationary we have free call options that are worth quite a bit. Having studied the history of money a lot of times it seems to me that exit is impossible and never has happened and probably won't ever happen.

They thought things were pretty bad and they really weren't that bad. The last couple of years things have been fine. Why they've wanted to print that much money into a growing economy with rising markets that had been rising for three years, why they felt like they needed to print that much money I don't know.

But the idea that they'll take money out of the system and environment that could get weaker, that would be shocking. So my personal guess is they'll keep printing less and less and less until some time the economy weakens or unemployment goes up or the stock market falls or housing market falls and then they'll be back to printing.

I don't know if that's right or not but I know, whether that's right or wrong, people should really I think feel some need to have some of their money in farm land and utilities and phone franchises and gold mines. And they should think twice about having all their wealth in bonds or dollars because the Fed by their admission is in unventured territory.

Rick Speidel: Thank you.

Operator: And Ted Tu of Integris has our next question.

Ted Tu: David hi. Thanks for the call. Just a couple quick questions - one is do you hedge FX or is everything total return? And the second part of the question is whether in this environment you're devoting any time or increasing time to short ideas. Thanks.

David Iben: Yes we do not hedge FX. We may or may not be any good at it, but more importantly the ones that most need to be hedged can't be hedged. And also we have a diversified portfolio. We have resource companies that will do well if the currency falls. We have exporters that will do well if the currency falls.

We have importers that will be hurt if the currency falls. And we have domestic ones that'll likely be hurt if the currency falls. We have multi-nationals that produce and sell everywhere. We don't know which way we want the currency to go.

And so we believe if we buy good companies and we buy them at big discounts and they're all wealth creators and it's diversified across lots of currencies that that'll play out well in the long run and currencies will help us a little in here and hurt us a little the next.

What we do, what we've always done, is view ourselves as appraisers of businesses. And so we spend all our time saying what are we buying and should we value it on assets and cash flow and different ways? And if it is worth 30 bucks in our opinion that's our best guess, and if the market says it's going to have it for 15, we're going to buy that thing.

And if the market says, "Nah, we think 150 is the right price," then we're going to short that. And that is really no incremental work. For the last eight or nine years we've been running funds that have the ability to short and it really is no more work.

We are appraising businesses and we are looking for the market to have a way different opinion than we do, either a way lower valuation or a way higher. Now is one of those markets we like. It's not a matter of whether the market's cheap or whether it's expensive. It's both.

But our health care analyst is finding shorts and our technology analyst is finding shorts. And our consumer discretionary is finding shorts. And our resource analysts are finding longs. And our utility analysts are finding longs. And our agricultural analyst is finding longs. And so each analyst is appraising things and alerting us when the market in our opinion has it way wrong one way or another.

Ted Tu: Right, so just a quick follow-up. In that case then portfolios or products where you can short, what type of net exposure are you running? And does that move around much or is it fairly static? Thanks.

David Iben: We stay between 20 and 80 net, to be above 80 it's become a long-only really. To be below 20 net in an environment where every central bank owner is printing money like crazy, something we really don't want to do either. We're in the high 30's right now.

As far as how it can move along, in early 2008 we were close to 20% net. And in early 2009 we were close to 80% net. The market dictated it. As it fell, we covered shorts and went long more. And so we don't sit there and say we have X opinion of the market. Bottom up, we're buying what we like and shorting what we don't and the tougher it gets to find longs and the easier it gets to find shorts the more the net drops.

Ted Tu: Thank you.

Operator: And Jason Jones of Morgan Stanley has our next question.

Jason Jones: Hi David. What's your target on CCJ? I noticed that it was in the SMA Tradewinds around 44 bucks around Fukushima.

And my second question is if you're just finding any value or opportunities in Europe today.

David Iben: Yes, on CCJ I don't have the model right in front of me, but I think somewhere in the 56 area. Don't hold me to that. We view the incentive price of uranium at some point being in the mid-70s in the next two, three, four years.

And then of course we risk adjust things so we want a big discount so that over the years back in I think '99 or 2000s when we first bought it and had a lot of it and the stock went up 17 times. And we were by that time completely out of it. And then when it fell back in the 40s we might have nibbled, but it wasn't till the 20s that it became really interesting.

And when it got down to like 13 or 14 it became a real big position.

If you look at Europe it's of course lots of different countries and different regions. So we've certainly found opportunities there although we were finding a lot more opportunities a year or two ago when people were very upset about the Euro and worried it was going away. And then they especially were worried about Southern Europe.

I think a lot of our concentration in the past has been places like Italy and France and a name or two in Greece and that sort of thing. But we've actually trimmed Europe a good bit over the last six months and moved more into emerging markets.

Operator: And there are no further questions at this time.

David Iben: Okay, well, thank you all again. Lots of good questions and certainly exciting times to be in the markets. And thanks again for everybody's support. Have a good evening.

Operator: And that does conclude today's conference. Thank you for your participation.